



**STATE INVESTMENT BOARD
BOARD ADOPTED POLICIES**

POLICY NUMBER: 2.65.400

EFFECTIVE DATE: 10/25/01

TITLE: Developmental Disabilities Endowment
Trust Fund

SUPERSEDES: SIB 2.45.100, 3/15/01

BOARD ADOPTION: 3/15/01

APPROVED: *James F. Parkhurst*

PURPOSE:

This document outlines the investment policy and objectives for the Developmental Disabilities Endowment Trust Fund created by the Washington State Legislature in 2000 and placed under the trusteeship and investment management of the Washington State Investment Board (SIB).

POLICY:

Standard of Care

Under RCW 43.33A.030, trusteeship of this Trust is vested in the voting members of the Board. State statute, RCW 43.33A.140, establishes a standard of care for investment of these funds. Investment authority is granted in RCW 43.330 as amended in 2000. Additionally, the Board and its staff must comply with other state laws, such as the Ethics in Public Service Act, Ch. 42.52 RCW, as it makes its investment decisions and seeks to meet the investment objectives listed below.

Investment Objectives

In accordance with RCW 43.33A.110, the portfolio is managed to achieve a maximum return at a prudent level of risk. The key determinate is identifying the prudent level of risk for a program relative to the needs of the Developmental Disabilities Endowment Governing Board and the participants. Based on this requirement the order of the objectives shall be:

1. Maximize return at a prudent level of risk based on identified investment time horizons.
2. Ensure sufficient income is available to fund the expected needs.
3. Invest in a manner that will not compromise public confidence in the program.

Investment Performance Objectives

Performance of the investment portfolio shall be judged relative to the investment objectives, the risk constraint standards, and the investment approach. The performance objectives are intended to provide the SIB, the Developmental Disabilities Endowment Governing Board, and individual participants with benchmarks to measure the performance of the investment policy and the guidelines.

1. Short term (until the fund is fully operational): earn a rate of return that exceeds inflation, but the bias is toward preservation of corpus.
2. Long term: earn a rate of return that exceeds inflation plus a set spending rate.

Risk Constraint Standards

1. All assets under management by the SIB are to be invested to maximize return at a prudent level of risk in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140.
2. Diversify the assets at a prudent level to moderate fluctuations in the market value of the endowment.

Asset Allocation

The Developmental Disabilities Endowment Trust Fund, while approved by the Legislature and signed by the Governor, is not fully operational. The State has set-up an initial matching fund of five million dollars that must be invested prudentially while the endowment's Governing Board is in the process of approving policy and procedures for the endowment. This asset allocation policy is to allow for the investment of all initial contributions until the endowment is fully operational.

The asset allocation will be reviewed at least every three years after the endowment is operational. SIB staff will meet at least annually with the endowment's Governing Board to determine if there have been any significant changes in funding levels or the objectives of the endowment and to review the investment portfolio performance. The Board has delegated to the executive director the authority to rebalance the asset allocation to fall within Board-adopted ranges or targets. Assets will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. Rebalancing will be accomplished first using normal cash flow and second through the reallocation of assets across asset classes. The timing of the rebalancing will be based upon market opportunities and the consideration of transaction costs, and therefore need not occur immediately.

ASSET ALLOCATION	Target	Maximum Range	Minimum Range
Fixed Income	23 percent	28 percent	18 percent
Cash	24 percent	48 percent	15 percent
U.S. Equities	14 percent	17 percent	0 percent
TIPS	39 percent	44 percent	34 percent

The above policy ranges are long-term and may deviate in the short-term as a result of funding schedules and interim market movements.

Fixed Income

The fixed income portfolio will be limited to the Bond Market Fund (SIB Policy 2.15.500).

U.S. Equities

The equity portfolio will be invested in a passive commingled fund managed to track a U.S. broad market index.

Treasury Inflation Protection Securities

The TIPS portfolio will be invested in U.S. inflation indexed bonds.

Cash

The cash portfolio will be invested in Short-term Investment Funds and Money Market Funds.

RESPONSIBILITIES:

State Investment Board: Responsible for approving the investment policy.

Administrative Committee: Responsible for reviewing and recommending an investment policy to the Board. Responsible for reviewing SIB staff investment management guidelines.

SIB Staff: Responsible for recommending an investment policy to the Administrative Committee and implementing policy and reporting to the Administrative Committee and the Board.

Original Policy Adopted 4/20/00

Revised 3/15/01

Revised 10/25/01, Supersedes SIB Policy 2.45.100